

Examiners' Report November 2008

IGCSE

IGCSE Economics (4350)

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4350 1F

Centres should now have past papers for several years so candidates should be familiar with the type of questions and how to achieve high marks. Hopefully this and previous reports will also add to the information required to enable candidates to enter the examination well-prepared and confident.

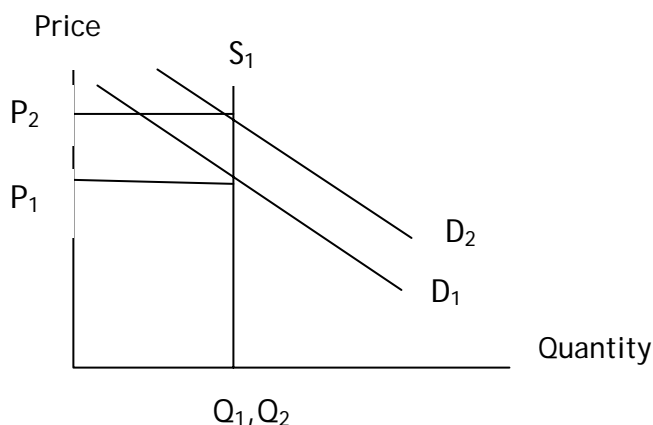
Centres should address the following common problems which have arisen in this and previous papers:

- Candidates should attempt all questions instead of leaving blank spaces.
- Candidates should read the questions carefully so their responses are based on the requirements of the questions instead of what they hoped would be required.
- There are still gaps in their knowledge. In this paper the term “opportunity cost” seemed unfamiliar to many candidates. So too was the Long Run Average Cost diagram which is essential to the understanding of economies of scale.
- When answering questions which require the higher skills candidates should consider both sides of the argument before reaching a reasoned decision.

Centres are to be congratulated on the interpretation of data, especially in Figure 2a. It enabled the majority to score maximum marks for this part of the question. Hopefully this will encourage centres to continue to use data with candidates especially that obtained for their own countries.

Question 1

Part (a) referred to rice which is an agricultural commodity. Candidates should therefore have recognised the perfectly inelastic supply curve associated with an agricultural commodity. Many did not correctly label the demand curve, D_1 and the supply curve S_1 . This also led to an inability to shift the demand curve to the right, D_2 , in response to an increase in the demand for rice.



In (a)(iv) some candidates correctly suggested factors, including an increase in population and increase in incomes, that would increase the demand for rice. Some candidates confused a movement along the demand curve, caused by a change in price, with factors which will shift the demand curve.

Responses to (a)(v) tended to be one sided and concentrated on the lack of education and skills needed by agricultural workers as compared to office workers. At this level most candidates made simple statements with no attempt to develop their reasons.

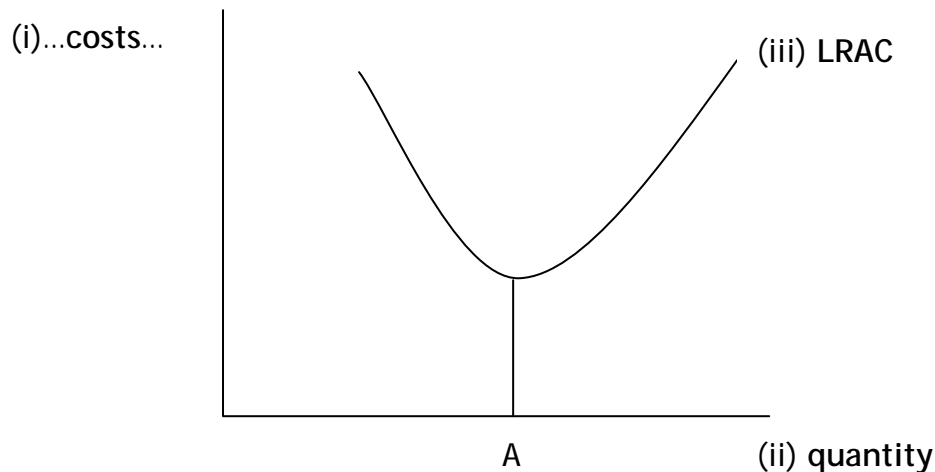
Elasticity of demand, both price and income, causes many problems for Foundation level candidates. Many do not understand the concepts and cannot define them. When asked to define income elasticity of demand some suggested that it was the change in demand which led to a change in income instead of *“the responsiveness of demand to a change in income.”* An inferior good is one for which demand falls as income increases as shown in the data for Product B. The other good, Product A, is a normal good.

Opportunity cost is a basic concept of economics yet many candidates could not define it nor identify that *“a new lorry”* was the correct response to (c)(ii).

Question 2

The data in Figure 2a provided the answers to (a)(i)-(iv). Only part (a)(iv) caused problems for the candidates i.e. the market share of Motorola increased from 15% to 20%, an increase of 5%.

Economies of scale is usually a topic which is well taught in centres. Candidates can usually identify economies but, as this question showed, they do not understand the relationship between economies of scale and average costs. They therefore had difficulty in placing the correct labels on the diagram for 2(b)(ii)(iii). The correct labels are shown below.



In (b)(iv) candidates were able to identify advantages and disadvantages but once again did not develop their arguments.

“When two firms merge they can benefit from economies of scale and this might lead to lower prices for consumers. They may also pool their technology and produce better mobile phones. However the merger reduces competition so prices might rise as the firms exploit the consumers. For this reason I think that consumers will not benefit from the merger as their choices will be reduced and they may have to pay more.”

Few candidates were able to give two ways in which a government can encourage competition. Most reasons given e.g. subsidies and lower taxes could be just as easily applied to large firms rather than to firms trying to enter a market to increase competition. Correct responses should have emphasised ways in which the government encourages firms to enter an industry e.g. cheap loans to new businesses, advice, as well as policy issues e.g. privatisation.

Question 3

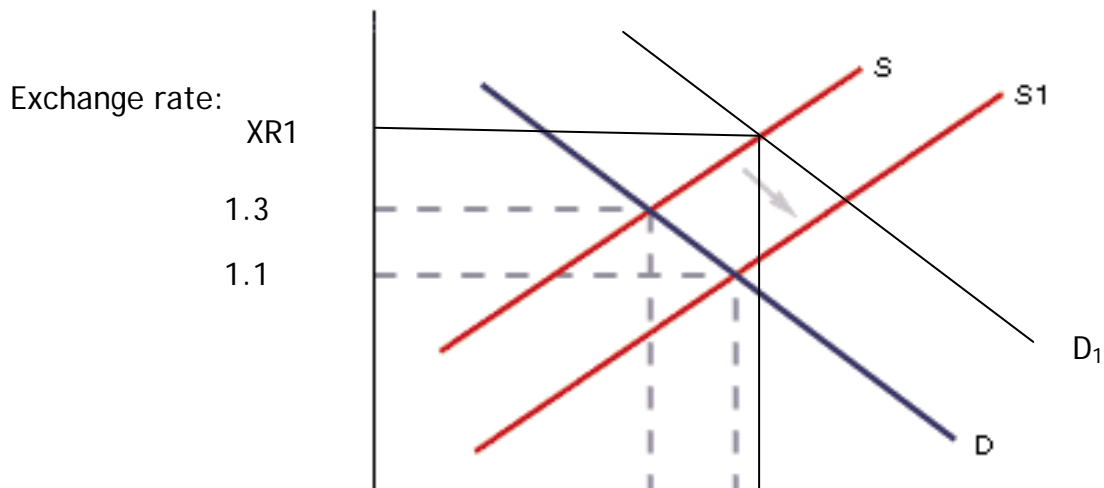
At both Higher and Foundation levels the majority of candidates could not complete the economic growth definition. In (a)(iii) the question asked for a description of the Maltese economy in 2003 not the change from 2003-2004! Most could give one factor which could lead to economic growth but had problems identifying two factors. Too many answers to (a)(vi) were one sided instead of looking at the advantages and disadvantages of economic growth.

“Economic growth can improve the standard of living as more people are employed and have more money to spend. Through increasing incomes and corresponding taxes the government can improve infrastructure, education and health services with the extra revenue. On the other hand it may mean increased pollution from the growing number of factories and congestion on the roads. If the government monitors the situation it can overcome the problems of economic growth so that the standard of living for all is increased.”

In (b)(i) Figure 3b showed the inflation rate falling but as inflation was still at 14.2% then prices were still rising, a point missed by many candidates. During inflation, (b)(ii), firms face higher costs so their profits fall. A problem experienced by consumers is not that their spending decreases during inflation but that prices rise so that they have to spend more to obtain the same amount of goods and services.

Question 4

Calculations showing how many yuan a tourist would receive for 100 Rands were usually correct. However candidates found it difficult to explain why changes in the exchange rate might take place. Part (a)(iv) required an additional demand curve to be added to Figure 4b showing an increase in demand for Rands and the subsequent increase in the exchange rate.



Part (b)(i)(ii)(iii) was well done apart from some candidates describing invisibles as “can’t be seen” which is insufficient at IGCSE level.

In (b)(iv) Figure 4c showed an increasing deficit in the current account but too many candidates did not refer to the data so only scored one mark. Part (c) required candidates to consider the advantages and disadvantages of international borrowing.

“The advantages outweigh the disadvantages if the government uses the money well to improve education and training and develop the country’s infrastructure so the country will produce more. This will improve the standard of living of the people in the country. Loans must be repaid and the developing country may not be able to do this and pay the rate of interest. This means it may end up borrowing more just to repay its original debt and so will never be able to get out of debt. I think this is bad for a country and it should not borrow unless in an emergency like the tsunami disaster.”

4350 2H

There are some recurring problems which have been mentioned in previous reports but which have not been addressed by all centres:

- Definitions should be learned so that candidates can give accurate, concise answers.
- Centres should ensure that candidates do not become confused over terms which look similar but are in fact completely different e.g. budget deficit and current account deficit and the supply of foreign currency and the supply of money in an economy.
- When answering questions which require the higher skills candidates should consider both sides of the argument before reaching a reasoned decision.

There are some centres which excel at this level. They have prepared their candidates by using past papers and local examples so that their responses are not only valid but also show they can apply their knowledge to their own country's economy.

Question 1

Parts (a)(i)-(iii) required the candidates to use Figure 1a which showed the demand and supply of rice. The subject matter caused few problems but many candidates had difficulty following the instructions in parts (ii) and (iii). The question required them to identify the new demand or supply curve corresponding to the information given. It did not ask them to draw a new demand or supply curve, candidates who did move the curves correctly were not penalised. However candidates who gave both demand and supply curve changes for each question did not score any marks.

Responses to (a)(iv) tended to be one sided and concentrated on the education and skills of office workers leading to higher wages. Candidates who considered demand and supply of each set of workers gained higher marks.

"Firstly because there is an excess supply of agricultural workers compared to office workers, agricultural workers face more intense competition for jobs than office workers. So to have a job and earn a living agricultural workers have to accept lower wages. Secondly agricultural workers are not considered to be part of a profession like office workers since they do mainly manual work and do not require a high level of education. Unlike office workers the occupational mobility of agricultural workers is quite low since they have no other skills so they have to accept lower wages."

The definitions which were required for (b)(i) and (c)(i) were often vague and could not be awarded full marks. Whilst the inferior good B, was correctly identified in (b)(ii), few used the data in Figure 1b in their explanation for (b)(iii). The same mistake occurred in (c)(ii). Many candidates who had correctly identified Product B as an inferior good, assumed that Product A was a "superior good" instead of using the correct term "normal good".

In (c)(iii) candidates were asked to examine either price elasticity of demand or income elasticity of demand in the decision making of firms. Too many used up their limited time to examine both. Two good responses are shown below.

Price elasticity of demand

"Firms must decide upon their pricing. If they are aware of the price elasticity of demand for their product they will know how demand and therefore total revenue responds to price changes. If the product is inelastic a fall in price will reduce total revenue as only a few more products will be bought. If it is elastic then a fall in price will increase total revenue. As firms have some control over pricing knowledge of price elasticity of demand will be important."

Income elasticity of demand.

"Firms should be aware of the effects of changes in income on the demand for their products. If incomes rise most firms would assume that demand for their product would rise but this might not be the case. If the good is inferior then demand will fall. In order to make decisions about how much to produce in the future, when incomes may rise or fall, firms would benefit from knowing the income elasticity of demand for their products."

Question 2

The majority of candidates correctly interpreted the data for (a)-(iv). Unfortunately few correctly identified the market structure and many who did, ignored reference to the data.

“An oligopoly. There are a small number of large firms like Nokia, Motorola and Sony.”

The diagram in Figure 2b showed a long run average cost curve. The reason for its shape is due to (b)(i) economies of scale and (b)(ii) diseconomies of scale but it would seem that some candidates don't know their “left” from their “right” and therefore scored no marks. A good response to part (iii) is given below.

“The benefits are greater because merged firms will gain economies of scale which will reduce the average costs of production and this may be reflected in a lower price for consumers. The quality and development of the mobile phone technology will increase. However it will lead to a decrease in competition in the market and lower choice for consumers. But I think the benefits from highly developed and cheap phones are greater than lower choice.”

Few candidates could correctly define “regional problem” but they usually managed to give at least one way in which a government could solve the problem. Good responses to (c)(iii) were seldom but such response is given below.

“In Ukraine there is a huge problem with unemployment in some regions mainly because of businesses closing. The best way of providing these workers with jobs is to invest money in retraining so that they can find jobs in other industries. Subsidies to businesses may not be successful in creating jobs if these firms are suffering a decline in demand and are closing. As a result more workers are finding jobs because of retraining than as a result of subsidies.”

Question 3

Economic growth is measured by the change in the “real gross domestic product over a period of time” but few candidates inserted the correct missing words in (a)(i)-(ii) to complete the definition. Malta was shown to have negative economic growth in Figure 3a. Part (a)(iii) asked candidates to ‘describe the likely state of the economy of Malta in 2003’. Unfortunately many chose to comment on the change in the economy from 2003 to 2004. Part (v) required some evaluation to achieve maximum marks as shown below.

“No I do not agree that economic growth always increases the standard of living. Undoubtedly it can make people wealthier and raise living standards but this is not always the case. Economic growth can lead to pollution by industries. If the population growth is greater than economic growth then per capita GDP can fall so living standards will fall. Factories could be providing more capital goods but not consumer goods so consumers might not be able to buy as many goods and services so their living standards will fall. Therefore more information is necessary to determine whether economic growth will always increase the standard of living.”

The problems experienced by the economy of Malta in 2003-2004 were increasing inflation and an increasing deficit on the current account. These were clearly shown in Figures 3b and 3c. In (b)(ii) too many were unable to explain two ways in which rising inflation might influence the balance of payments.

“Increasing prices in the domestic economy means that export prices rise so demand falls. This worsens the current account. At the same time import prices appear cheaper than domestic goods so the demand for imports rises and the current account balance worsens even more.”

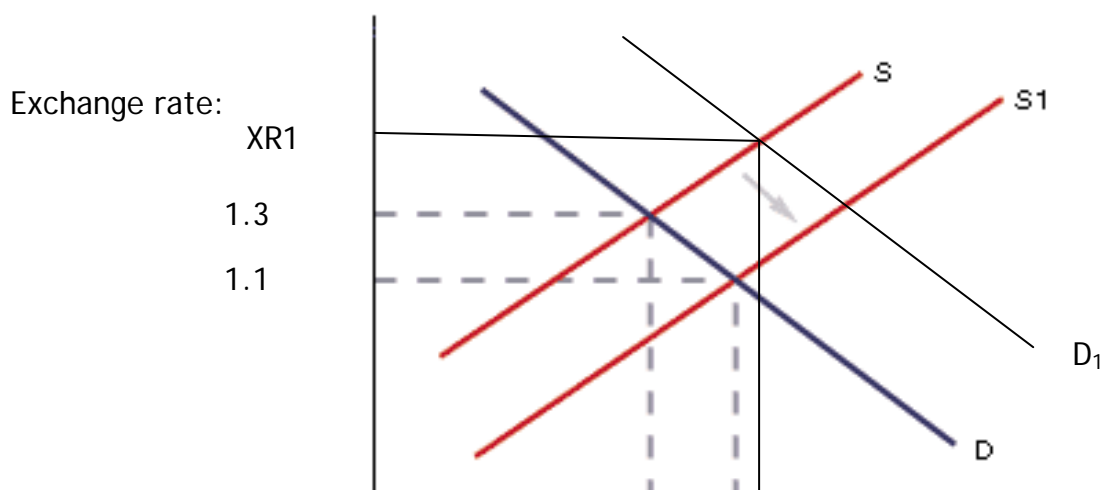
The main monetary measure used to control inflation is an increase in the rate of interest. There are still some candidates who incorrectly gave fiscal measures of increasing income tax and even supply side policies as examples of monetary measures.

In (c)(ii) answers were often simplified and descriptive instead of evaluating the issue of increasing income tax and its effect on the current account.

“If income tax is increased then people have less disposable income so spend less. Some of this decrease in spending may lead to a fall in demand for imports which would improve the current account. At the same time less will be spent on domestic goods and services so businesses may look for new markets abroad which will increase exports. However, if the demand for imports is inelastic, because the goods are necessities, then there will be little change in the demand for imports and so the current account might not improve.”

Question 4

Most candidates could calculate simple exchange rates but did not understand why the exchange rate of a currency can rise and fall through the interaction of demand and supply. There was also confusion between the supply of foreign currency in the foreign exchange market and the supply of the currency within the economy.



Part (a)(iv) is shown above. The increase in South African exports leads to an increase in demand for the currency and the exchange rate rises to XR1.

Although candidates know that the WTO aims to promote free trade, their knowledge of how successful it has been is lacking. Candidates should know the aims of the WTO, how it achieves free trade and also why it fails. The following answer's criticism of the WTO earned it full marks.

"I think it has not quite been successful in promoting free trade. Nowadays there are many less developed countries struggling with globalisation and are trying to maintain their competitiveness but have failed due to the lack of skills of their people. They are exploited by more developed countries. Whenever the WTO holds its conferences demonstrations break out with less developed countries urging the WTO to listen to their problems. The less developed countries are still facing many trade barriers by developed countries. I therefore think that the WTO has helped trade between developed countries by reducing barriers but has allowed them to still keep barriers to trade with developing countries."

In part (c) candidates showed that they do understand that foreign loans have advantages and disadvantages.

"The advantages will outweigh the disadvantages if the government in the developing country invests this money into supply side policies like education and training, capital and enterprise. All of this will increase production in a country, increase the standard of living and economic growth. However if the money is not used efficiently the country may not be able to pay back its debt. The debt will increase as interest is added to it and the lender country may try to influence the debtor country. Therefore for foreign borrowing to be advantageous the money must be spent in making the country more productive and efficient."

General Comments

The paper provided opportunities for all candidates to demonstrate their economic knowledge and understanding together with their ability to use this in relation to the sources and the questions asked.

Better candidates had used the pre-released material as a basis for further study and had a good understanding of the issues involved in globalisation. They had also carefully studied the data in Source A. They were also able to make good use of information from their own country to enhance their answers especially in question 6. In addition, these candidates took careful note of the 'key word', and used the sources, in order to answer the precise question that had been asked.

Weaker candidates appeared, in many cases, not to have seen the sources, to be unprepared for the questions and, in the exam room, to have ignored the sources thus limiting the credit that was available.

Centres, and candidates, are reminded of the need to use the material as a basis of further study and preparation for the exam. They should note, also, the requirement to refer to 'your country' and that this refers to 'a country of your choice'. Too many candidates answered the questions without any reference to a country.

Questions

1. The best candidates made good use of the data to support their answers and realised that the figures were in two different currencies. A few had prepared fully by converting both currencies into a common one, either the US Dollar or the euro. The mode mark was two as many candidates ignored the figures and could not get past basic statements such as Malaysia's trade is positive while Kenya's is negative.
2. (a) Most candidates used the sources with the favourite advantages being: competition; productivity; and jobs. In some cases a list was presented, but no explanation. This approach scored two marks.

(b) There were a few excellent answers that made good use of the sources concentrating on job losses, environment and children's health. Too often, however, candidates ignored the sources and came up with their own ideas. As this ignored the instruction 'with reference to the sources' the maximum awarded was half marks.
3. The best answers made good reference to Source D and added their own comment on whether women were the 'biggest winners' and children the 'biggest losers'. Many candidates were able to offer good answers as far as women were concerned, but offered only very brief references to children. These could gain up to 6 out of 8 marks. Another large proportion of candidates responded by largely lifting the text with very short development limiting their mark to a maximum of four. Finally, a few candidates either ignored Source D altogether or rewrote it. These answers scored very few marks.
4. Too many candidates ignored the 'key word' and failed to explain 'why it was important', but instead listed a series of points from the sources. This approach generally gained one mark. Others did, however, put together an argument often starting with increased productivity. The best were able to link productivity with efficiency and lower costs/prices leading to increased trade.

5. Many candidates assumed the answer was yes, or occasionally no, and thus found any discussion difficult. These responses rarely gained more than half marks. More perceptive answers realised that the question referred to changes in comparative advantage/specialisation and that while the UK would lose in some areas it might not be an overall loser. A few candidates realised that multinational companies are often based in developed countries and could be one indication of them not always losing.
6. It was very pleasing to see that the majority of candidates made clear reference to their country and that many had good knowledge of it which they could use in this question. The main differentiator was in terms of those who had carefully read the question and had realised that it asked for 'to what extent' and those who had not. It was good to read a number of excellent responses that took a realistic view of the effects of globalisation on their country pointing out that not all groups or sectors would be winners. There were, however, a few weak responses where candidates regurgitated material with no explanation.

4350 Coursework Report

Introduction

There was only one centre undertaking the coursework where the majority of investigations were of a good standard. The following comments identify the main weaknesses of candidates to highlight areas where improvements can be made. The centre chose to allow all candidates to research the same question. The question itself offered candidates a variety of options and the opportunity to demonstrate their economic skills and understanding. In addition, and of great importance was that it encouraged candidates to undertake primary research, a key element to success in undertaking coursework.

Knowledge and Application

The better candidates made significant use of economic terminology and applied it precisely to the question posed. Definitions were evident and there was a clear understanding. Weaker candidates tended to be too general and descriptive in approach, often losing sight of their economic argument. Better answers were based on primary and secondary data. Clearly a great deal of effort was put in by some candidates in collecting data. This enabled them to develop their economic arguments effectively.

Interpretation and Analysis

There was excellent analysis produced by some candidates, showing an ability to use the collected research material in a relevant and informative manner. At this level there was some impressive use of economic theory and concepts, with a direct link to the research project in hand. Better candidates made effective use of diagrammatic analysis. This added much to the depth and development of the arguments being developed.

Evaluation

The majority of candidates made an effort to reach reasoned conclusions. The best candidates demonstrated a high level of evaluative skills based on their research findings. Only one candidate failed to offer a conclusion of any kind and thus failed to gain marks for this criteria. Also a small minority made conclusions but appeared to be independent and not based on the evidence collected or the analysis developed.

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